



Interruptive Military Service Credit Study

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Today's Presentation

- Quick Recap
- Policy Highlights
- Policy Options
 - Expansion of Benefits
 - Status Quo
- Data Received
- Actuarial Insights
- Preliminary Recommendation Options
- Possible Committee Action

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Quick Recap

- Should fully subsidized interruptive military service credit be expanded to include individuals who were awarded an expeditionary medal during a period of war?
- Key Policy Considerations
 - Benefit Consistency
 - Benefit Administration
- To encourage consistency in treatment of military service among pension systems study requires sharing preliminary recommendations with LEOFF 2 by October 31, 2020
- SCPP final report due to the Legislature by January 2, 2021
 - Recommendations, analysis, potential costs

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Policy Highlights

Benefit Expansion

- Could be viewed as consistent with original intent of the SCPP and LEOFF 2
- May be viewed as providing more consistent treatment of members serving in combat operations with high levels of personal risk and hardship
- On the other hand, some members could receive service credit who were not in combat
- May reduce perceived inequity in treatment of members receiving expeditionary medals
- Potentially higher cost

Current Policy

- These members can be eligible for partially subsidized service credit under current law
- Some members may serve in similar combat operations but do not receive fully subsidized service credit
- Avoids unknown future impacts given medals, criteria and conflicts are not defined by the State of Washington
- Avoids any intergenerational equity issues posed by providing benefits to current actives and retirees
- Potentially lower cost

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Policy Options

- **Expansion of Benefits**
 - Instead of partially subsidized service credit, provide fully subsidized interruptive military service credit to individuals who received an expeditionary medal
 - Different paths available under this option
- **Maintain Status Quo**
 - Do not expand fully subsidized interruptive military service credit to individuals who received an expeditionary medal

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Data Received

- Military department provided data on the number of expeditionary and campaign medals awarded over various time periods

	Air National Guard (2016-2020)	Army National Guard (Based on Currently Serving Members)
Expeditionary Medals	476	991
Campaign Medals	159	1,995
Ratio	2.99	0.50

- DRS provided updated data on amount of fully and partially subsidized service credit awarded
- DVA was unable to provide any supporting data
- Other states data comparison difficult due to different benefit criteria

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Preliminary Actuarial Analysis

- Based upon our analysis of the data, the actuaries assumed:
Service Credit provided for Expeditionary Medals would be similar to Campaign Medals over the long-term
 - See the Appendix for further details
- As a result, we expect the cost of providing fully subsidized interruptive military service credit for Expeditionary Medals
 - Is **immaterial** for PERS 1, TRS 1/2/3, SERS 2/3, and LEOFF 1
 - Will mirror those from [SHB 2544](#) for Campaign Medals **Prospectively**
 - Expeditionary Medals awarded for service after the effective date of the bill
 - To be similar to liabilities for Campaign Medal service awarded **Retroactively**
 - Expeditionary Medals awarded for service prior to the effective date of the bill
 - We anticipate this includes cost for actives, retirees, and any refunds.

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Actuarial Cost Estimates

- **Prospective**
 - \$1.3m Total Employer 25-year cost
 - See Actuarial FN on SHB 2544 for details

Impact on Contribution Rates				
System/Plan	PERS 2/3	PSERS 2	LEOFF 2	WSPRS 1/2
Current Members				
Employee (Plans 1/2)	0.0002%	0.0001%	0.0013%	0.0053%
Employer	0.0002%	0.0001%	0.0008%	0.0053%
State			0.0005%	

- **Retroactive**
 - Represents preliminary impacts that are subject to change
 - About \$16m Total Employer 25-year cost

Impact on Contribution Rates				
System/Plan	PERS 2/3	PSERS 2	LEOFF 2	WSPRS 1/2
Current Members				
Employee (Plans 1/2)	0.003%	0.004%	0.019%	0.099%
Employer	0.003%	0.004%	0.012%	0.099%
State			0.008%	

- Please refer to the Appendix for additional actuarial disclosures

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Expansion of Benefits Options

Option 1

- If cost is a concern, perhaps provide to active members of the state's pension systems only, for medals earned after the effective date of a bill
- **Prospective** only
- Least costly

Option 2

- If your goal is to maximize benefits, then consider providing to active members and retirees of the state's pension systems
- **Prospective plus Retroactive**
- Perceived as providing more consistent, fair benefits
- Most costly

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Preliminary Recommendation Options

- Expand benefits
 - Option 1: **Prospective** only
 - Option 2: **Prospective plus Retroactive**
 - Staff may be able to bring back additional analysis in November or bring back variations on the above options based upon committee direction
- Maintain status quo
 - Do not expand fully subsidized interruptive military service credit to individuals who received an expeditionary medal
- Study further
- Make no preliminary recommendation

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Next Steps

- Possible Committee action to share a preliminary recommendation with the LEOFF 2 Board
- November 17 SCPP meeting
 - Sharing the LEOFF 2 Board's preliminary recommendation at the November 17 SCPP meeting
 - Possible public hearing

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Thank You

The Select Committee on Pension Policy is staffed by the Office of the State Actuary.

Questions? Contact us:

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Appendix

- Data Details
- Data Analysis
- Actuarial Analysis
- Actuarial Disclosures

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Appendix: Data Details

DRS Data		
	Fully Subsidized	Partially Subsidized
2011	107	2
2012	52	1
2013	136	0
2014	105	4
2015	103	6
2016	60	18
2017	50	14
2018	31	32
2019	46	26
2020	19	11
Average		
10-Year	70.9	11.4
5-Year	41.2	20.2
Ratio	1.72	0.56

Notes

- DRS Data for 2020 does not represent a full year

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Appendix: Data Details (*Continued*)

Air National Guard		
	Campaign Medals	Expeditionary Medals
2016	15	272
2017	17	120
2018	54	50
2019	63	29
2020	10	5
Total	159	476
	Ratio	2.99

Army National Guard			
Campaign Medals	Afghanistan (2001-2014)	690	1,995
	Inherent Resolve (2014 to present)	129	
	Iraq (2003-2014)	1,148	
	Kosovo (1998-1999)	28	
Expeditionary Medals	Armed Forces (N/A)	85	991
	Global War on Terrorism (2011 to present)	906	
		Ratio	0.50

■ Notes

- Army National Guard years in parentheses added by OSA

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Appendix: Data Analysis

■ Army National Guard Data

- Indicates Expeditionary Medals are mostly a more recent phenomena
 - i.e., The Global War on Terrorism (2011 to present)

■ DRS Data

- Fully subsidized counts (for Campaign Medals) are decreasing over last decade
- Meanwhile, partially subsidized are increasing; a proxy for Expeditionary Medals
 - Note that partially subsidized counts could include Service and Reserve Medals as well

■ Air National Guard Data

- Actual experience may be skewed by short-term window
- Utilized DRS Data to normalize counts
 - Took ratio of 10-year average to 5-year average and applied it to the Air Totals
 - Resulted in a modified Expeditionary-to-Campaign Medal ratio of 0.98

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Appendix: Actuarial Analysis

- Based upon the data analysis on the previous slide, we assumed:
Service Credit provided for Expeditionary Medals would be similar to Campaign Medals over the long-term
- For the Prospective aspect of this proposal, please see our actuarial fiscal note on SHB 2544 for all relevant disclosures related to the costs shown in this PPT
 - Implies the assumptions and methods would be consistent for this new analysis
 - Actual levels of Expeditionary Medals granted in the future may vary
 - Costs would need to quadruple to impact rounded contribution rates in LEOFF 2
 - Costs would need to triple for WSPRS contribution rate impacts to round to 0.02%
 - If this proposal becomes a bill, we would update this analysis based upon the June 30, 2019, AVR
 - This latest valuation includes new demographic assumptions.

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Appendix: Actuarial Analysis (Continued)

- For our Retroactive cost estimate, we used the following methods
 - Given Expeditionary Medals have mostly been granted since 2011, we estimated the value of the fully subsidized service credit given for Campaigns over that period
 - Taking the active liability for each plan, we divided by total plan service credit
 - This amount was then multiplied by the fully subsidized credit granted for Campaigns
 - The cost we developed for this proposal is based on the assumption that the same level of fully subsidized Expeditionary Medal service credit would emerge
 - We recognize that some historical fully subsidized service credit may be attributable to retirees, but our simplified methods don't allow us to distinguish between these groups
- In terms of risk, we do not expect either the Prospective or Retroactive application of this proposal to significantly impact overall risk measures
 - Prospectively, however, a large-scale and lengthy future conflict could materially increase the number of members who earn fully subsidized service credit

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Appendix: Actuarial Disclosures

- We relied on data provided by the Military Department and DRS to estimate the relative relationship between Campaign and Expeditionary Medals
 - We reviewed the data and found it reasonable for the purposes of this pricing, but we did not audit the data
- We assumed an effective date for this proposal of 90 days after the 2021 Legislative Session
 - This estimate is intended for use by the SSCP during the 2020 Interim
 - If this proposal is introduced during session, the results presented in a fiscal note may vary from this estimate
- Unless otherwise noted, we developed these costs using the same assumptions as disclosed in our 2019 AVR, available on our website
 - We believe the data, methods, and assumptions used in this pricing are reasonable for the purposes this pricing exercise
- Michael T. Harbour, Actuary (ASA, MAAA), served as the reviewing and responsible actuary for this analysis